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TODAY

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Claire W. Gargalli

STANDARD CHARTERED PLC has put Union Bank up for sale, and foreign bidders from the Pacific Rim are expected to emerge as suitors, say industry observers....2

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Quote

The role I can best play is that of a good banker.

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Unquote

First City Recapitalized in FDIC Bailout

Agency, Investor Group Led by Abboud Rescue Texas Firm

By ROBERT TRIGAUX
Washington Bureau

WASHINGTON — Backed by nearly $1 billion in federal assistance and a $500 million new stock offering, an investor group led by former Chicago banker A. Robert Abboud has won control of troubled First City Bancorporation of Texas, it was announced Wednesday.

The bailout of the Houston banking firm by the Federal Deposit Insurance Corp. is second in size only to the FDIC's $4.5 billion 1984 rescue of Continental Illinois National Bank and Trust Co. of Chicago. First City is a $12 billion-asset institution with 62 banking subsidiaries.

On Wednesday, announcements of the takeover of First City were made simultaneously in Washington, by the FDIC, and in Houston, by First City and Mr. Abboud. The deal remains subject to shareholder approval, which is expected before Thanksgiving.

FDIC Chairman L. William Seidman on Wednesday said that if the FDIC had let First City fail and the agency had to liquidate its bank subsidiaries, it would have cost the FDIC up to $1.8 billion. The firm's lead bank, First City National Bank, Houston, with $2.8 billion in deposits as of June 30, was close to failing, according to the FDIC.

"This action was taken because it represents the lowest-cost alternative

FDIC: Page 8 ➡

> Texas is an energy state, and I hope we can help rebuild that industry.
>
> — A. Robert Abboud

An American Banker Special Report

Japanese Banks Tackle California Middle Market

By ROBERT LUKE
First in a Series

LOS ANGELES — Japanese banks, having established a beachhead in California, now are mounting a full-scale attack on American competitors in the richest banking market in the United States.

From a negligible share a decade ago, Japanese-owned banks now command an estimated 12% to 13% of the California market.

"Within 5 to 10 years, Japanese banks will account for about 25% of [commercial bank] assets in the state," said Tsutomu Itoh, president of the Kyowa Bank of California and general manager of the Kyowa Bank Ltd.'s agency in Los Angeles.

"As many as three Japanese banks will be in the top five," he said. Currently, 4 of the top 10 are Japanese.

Mr. Itoh said much of the gain will come at the expense of California's four giant domestic banks, which now hold an estimated two-thirds of commercial bank assets in the state. They are Bank of America, First Interstate Bank of California, Security Pacific National Bank, and Wells Fargo Bank.

California has the largest economy in the United States and the sixth largest in the world. With 12% of the nation's population, the state commanded 15.9% of the nation's commercial bank and thrift assets in 1985.

Japanese funds are pouring into the state, not only in real estate and manufacturing investments, but in banking as well. The Sanwa Bank Ltd., for example, nearly quadrupled its California branch network last year with one acquisition — the $3 billion-asset California subsidiary of Lloyds Bank PLC.

"The Japanese have more interest in acquiring California banks than any other group of banks," said Gerry Findley, a banking consultant in Brea, Calif. "They are willing to pay a reasonable premium."

Japanese: Page 22 ➡

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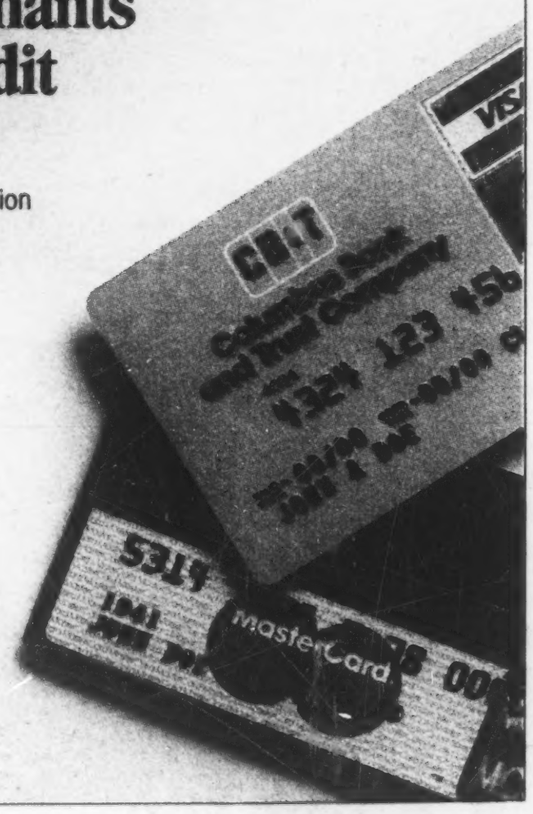

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An American Banker Special Report

Japanese Banks Pursue Middle Market in California

Continued from Page 1

Last year, Japanese bank assets in the Golden State jumped nearly 32% to $67.1 billion, including $44.2 billion housed in 23 agencies or branches and $22.9 billion in nine California bank subsidiaries.

The subsidiaries are California First Bank, which is owned by the Bank of Tokyo Ltd.; Sanwa Bank California, owned by the Sanwa Bank Ltd., Osaka; the Bank of California and the Mitsubishi Bank of California, owned by the Mitsubishi Bank Ltd., Tokyo; the Sumitomo Bank of California, owned by the Sumitomo Bank Ltd., Osaka; Mitsui Manufacturers Bank, owned by the Mitsui Bank Ltd., Tokyo; Tokai Bank of California, owned by the Tokai Bank Ltd., Nagoya; Dai-Ichi Kangyo Bank of California, owned by the Dai-Ichi Bank Ltd., Tokyo; and Kyowa Bank of California, owned by the Kyowa Bank Ltd., Tokyo.

> Japanese banks offer higher rates for deposits and lower rates on consumer loans.

Although American bankers say they don't underestimate the Japanese, many believe the Japanese don't offer much competition in the mother lodes of the California market — retail banking and the corporate middle market.

"The Japanese have not been real competitors," said Carl E. Reichardt, Wells Fargo's chairman and chief executive officer, in an October meeting with security analysts in San Francisco. "The only place we see them on anything like a recurring basis is in major corporate credits, particularly public utilities and municipalities. The spreads on this business are razor thin. And they're doing us a great favor by taking this stuff out of the market.

Kyowa's Mr. Itoh agreed that the Japanese haven't been that competitive, but added, "I think that will change."

Once content to serve a largely Japanese clientele with nearly invisible spreads between funding costs and loan rates, Japanese banks in California now are cultivating the overall American market.

The reasons are economic.

With 23 Japanese banks serving some 1,000 Japanese firms in the state, the market "certainly is overbanked," said Atsuo Hasegawa, president of the Tokai Bank of California and general manager of the Tokai Bank Ltd.'s agency in Los Angeles.

Stressing Returns from Subsidiaries

Moreover, bulking up on low-margin assets doesn't make sense if Japanese banks with overseas operations need to boost their capital ratios to 6% by 1991, analysts said. Current Japanese ratios are estimated at less than 2.7%.

As a result, "the parents are putting more emphasis on ROAs [return on assets] of subsidiaries," said Junji Hatano, executive vice president and chief operating officer of the Bank of California. "They didn't have specific expectations of ROAs before."

"There may be a little more pressure for earnings today than in the past," said Leonard Weil, retired president and chief executive officer of Mitsui Manufacturers Bank. "When the dollar was appreciating, it didn't really matter very much whether they were making any profit or not because they were gaining in the appreciation of the dollar. Now, it is much more important that they make some earnings."

Usually conservative Japanese bankers, however, express unease about tapping the riskier American middle market with the discount pricing they used in recent years to dominate the public finance market. Last year, Japanese banks, largely through agencies in the United States, issued $18 billion in letters of credit to underwrite municipal securities — or about 50% of the market.

"Profitability comes first, not market share," said Seishichi Itoh, president and chief executive officer of California First Bank. "However, I have to tell you, profitability has something to do with market share. It sounds contradictory, but if you want to enjoy the benefits of scale, you have to have market share in order to make money."

To increase market share, Japanese banks often price loans 25 to 50 basis points lower than their domestic California competitors, according to Kyowa's Mr. Itoh. He added, however, that the short-term cost of such aggressive pricing eventually can lead to more profitable long-term relationships.

He pointed to a Kyowa customer, an American electronics importer, that picked the bank to finance its employee stock ownership plan. Such loans can command 200 to 300 basis points over the prime rate, he said.

Undercutting the Competition

To attract retail customers, Japanese banks also offer higher rates for deposits and lower rates on consumer loans, such as those for automobiles and

Japanese: Page 24

California's Japanese-Owned Banks

Totals on Dec. 31, 1986 (in millions of dollars)

	Assets	Deposits	Equity
California First Bank, San Francisco	$6,108	$4,731	$376
Sanwa Bank California, San Francisco	5,116	3,607	366
The Bank of California, San Francisco	4,073	2,071	283
Sumitomo Bank of California., San Francisco	3,306	2,665	187
Mitsui Manufacturers Bank, Los Angeles	1,877	1,680	136
Mitsubishi Bank of California, Los Angeles	1,376	1,243	94
Tokai Bank of California, Los Angeles	1,007	600	60
Dai-Ichi Kangyo Bank, Los Angeles	239	184	22
Kyowa Bank of California, Los Angeles	129	109	14

Ratios for 1984-1986

	Net Stockholder Return on Beginning Equity[1]			Annual Deposit Growth Rate		
	1986	1985	1984	1986	1985	1984
California First Bank	14.35%	9.50%	13.07%	15.52%	6.46%	16.77%
Sanwa Bank California	39.45	6.83	11.37	170.33	8.76	9.98
The Bank of California	7.99	2.67	(5.38)	10.47	7.82	(3.03)
Sumitomo Bank of California	12.28	17.12	10.53	8.94	8.25	3.84
Mitsui Manufacturers Bank	(14.63)	6.35	7.57	(3.39)	11.14	6.23
Mitsubishi Bank of California	19.71	19.35	7.07	10.40	35.11	24.81
Tokai Bank of California	11.94	5.06	1.42	25.01	34.91	(8.57)
Dai-Ichi Kangyo Bank	2.44	2.45	3.41	(12.33)	25.21	21.80
Kyowa Bank of California	5.93	8.45	4.77	16.30	32.08	21.51

Ratios for 1984-1986

	Net Opererating Income/Average Assets[2]			Net Loan Loss/Beginning Loans		
	1986	1985	1984	1986	1985	1984
California First Bank	1.92%	1.61%	1.36%	0.90%	0.92%	0.53%
Sanwa Bank California	0.82	0.56	0.68	0.61	0.37	0.21
The Bank of California	0.96	0.56	0.38	0.45	0.74	1.02
Sumitomo Bank of California	1.27	1.30	0.90	0.05	0.09	0.10
Mitsui Manufacturers Bank	0.80	1.48	1.56	2.92	1.59	1.84
Mitsubishi Bank of California	1.64	1.25	0.69	0.36	0.46	0.37
Tokai Bank of California	1.42	1.28	0.82	0.38	1.15	0.95
Dai-Ichi Kangyo Bank	0.41	0.34	0.55	0.14	0.09	(0.01)
Kyowa Bank of California	0.93	1.31	0.93	0.00	0.00	0.15

[1]Calculated by adding net additions to equity capital, plus cash dividends, minus additional capital stock sold or converted, or capital contributions by parent holding company. [2]Net operating income before provision for loan losses, income tax and securities transactions.

Source: The Findley Reports, Brea, Calif.

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Fed Proposes Rate Caps for Some Home Loans

Continued from Page 3

problem: forced early repayment of a loan.

Without the caps, Mr. Angell's argument goes, a lender could raise the loan rate as interest rates in the economy increased. But with caps, the lender runs the risk of charging less for a loan than the prevailing interest rate.

Lenders are not going to turn their backs on their best customers and won't be terminating loans at will, said Craig Ulrich, general counsel at the Consumers Bankers Association.

"These are important customers, responsible family persons," he said, "about the absolute last group these financial institutions would want to Mickey Mouse around with."

Some banks won't reserve the right to call a loan if interest rates exceed the cap because they don't want to discourage customers, but other lenders will, Mr. Ulrich said.

Elena Hanggi, president of the Association of Community Organizations for Reform Now, or Acorn, commended Mr. Angell's stance, but said more consumer protection is necessary.

"I'm not sure I see enough consumer protection under Angell's proposal," she said in a phone interview. "We need to know what those conditions for a call-in would be." Ms. Hanggi stressed that she had not seen Mr. Angell's proposal.

The disclosure proposal does not establish a maximum interest rate, but merely states that "any adjustable-rate mortgage loan originated by a creditor shall include a limitation on the maximum interest rate that may apply during the term of the mortgage loan." ■

Gargalli Named Chief Executive at Equimark Corp.

Continued from Page 2

Her management style, she said, will be the same: "You have to know which direction you're going in and be able to clearly communicate that to others. Make sure you let people know your expectations and whether their performance measures up.

"Do a lot of listening, and develop a team approach," she continued. "This is not a one-person business. You can't sit back and just tell others what to do; you've got to get in there and do it, too.

"And you've got to be tough when necessary — it's not the nicest part of the business, but it's as important as any other." ■

BACKPAGE

Looking for Gold in California

BANKCAL
THE BANK OF CALIFORNIA

Osamu Yamada
Chairman, President and CEO

Assets: $4.2 billion
Owner: The Mitsubishi Bank Ltd., Tokyo
Strategy: Wants to add five to 10 branches to current 22 in high-density, economic-growth areas. Emphasis on trust, private banking and corporate middle-market business. Retail banking an adjunct to those businesses.

Sanwa Bank
California

Yukihiro Fujiwara
President and CEO

Assets: $5 billion
Owner: The Sanwa Bank Ltd., Osaka
Strategy: The state's seventh-largest bank, also active in the retail and corporate middle-market, wants to double in size in five years. Last year's acquisition of Lloyds Bank California boosted branch network to 113 from 29.

CALIFORNIA FIRST BANK
FIRST Member FDIC

Seishichi Itoh
President and CEO

Assets: $6.1 billion
Owner: 77% owned by Bank of Tokyo Ltd.
Strategy: The state's sixth-largest bank wants to expand its retail and corporate middle-market business. Emphasis on technology driven products and services. Wants to boost branch network to 200 from 135 currently by 1990.

Sumitomo Bank
Sumitomo Bank of California Member FDIC

Teruhisa Shimizu
President and CEO

Assets: $3.4 billion
Owner: 85% owned by The Sumitomo Bank Ltd., Osaka
Strategy: The bank models itself after Wells Fargo Bank. As a result, it concentrates on real-estate and middle-market lending. Beefing up sales orientation. Wants to build trust business; and add 10 branches to current 45.

TOKAI BANK
OF CALIFORNIA

Atsuo Hasegawa
President and CEO

Assets: $1 billion
Owner: Tokai Bank Ltd., Nagoya
Strategy: Seeking to grow internally, with emphasis on developing corporate finance, rather than of retail banking, business. Active in auto dealer financing. Wants more real-estate, corporate middle-market business.

Mitsui Manufacturers Bank

Yutaro Hayashi
President, CEO

Assets: $1.8 billion
Owner: The Mitsui Bank Ltd., Tokyo
Strategy: Rebounding from losses in 1986, the bank is seeking to reduce its reliance on real estate loans. Focus is on developing the corporate middle market, particularly hi-tech; and national and multinational accounts.

MBC
THE MITSUBISHI BANK OF CALIFORNIA

Yutaka Hasegawa
President, Chairman

Assets: $1.4 billion
Owner: The Mitsubishi Bank Ltd., Tokyo
Strategy: About 60% of loans are commercial real estate loans. Seeking to diversify with consumer installment loans and asset-based financing, among others. Prefers acquiring smaller banks to avoid duplicating branches.

DKB DAI-ICHI KANGYO BANK OF CALIFORNIA

Hisao Kobayashi
President, Chairman

Assets: $250 million
Owner: The Dai-Ichi Kangyo Bank Ltd., Tokyo
Strategy: Virtually all of bank's functions are geared to serving customers of DKB's expanding agency, which has assets of $6 billion. Parent mulling possibility of expanding bank, or may leave it as adjunct of agency.

THE KYOWA BANK
OF CALIFORNIA

Tsutomu Itoh
President

Assets: $100 million
Owner: The Dai-Ichi Kangyo Bank Ltd., Tokyo
Strategy: Largely functions as adjunct of Kyowa's agency, which has $1.6 billion in assets. Majority of customers Japanese or Japanese-American. Seeks to develop real estate, middle-market business. Considering trust business.

Japanese Attempt to Broaden Base in Richest Banking Market

➳ Continued from Page 22

boats.

"Our auto loan rates are the lowest of all the larger banks," said Ronald Nakayama, vice president and deputy manger of loan administration at Sumitomo Bank of California.

Japanese bankers in California are confident they can capture a bigger share of the market with the help of talented American bankers, who frequently are assigned to develop relationships in the corporate middle market. To attract and retain talented personnel, Japanese banks are giving Americans more decision-making authority, particularly in subsidiaries.

"Advancement is not as limited as in a branch," said Mr. Hatano of the Bank of California.

An example of the use of a subsidiary as a vehicle for growth is the Tokai Bank of California, whose assets nearly doubled in 1986 to $1 billion, largely because of more than $500 million in auto dealer financing handled through a subsidiary headed by an American and staffed entirely by Americans.

Still, Japanese banks here seem more comfortable with transaction-oriented, rather than relationship-oriented, businesses. For example, most are keen on developing real estate loans.

"It's probably easier to get," Mr. Hatano said. "It's more transaction oriented. You don't have to have a long-term relationship. When it comes to big deals, you have to go to Tokyo for approval. Because of continuing appreciation of land prices in Japan, real estate deals are more favorably acted on."

Nevertheless, the Japanese are cautious.

"In real estate deals, for example, they tend to want a participant in the deal that is clearly knowledgeable," and that inevitably means an American bank, said Jim Grayson, an attorney with Morrison & Foerster in Los Angeles who works with Japanese banks.

"We want to pick and choose our markets," said Mr. Nakayama of Sumitomo Bank. "We don't want to concentrate on hotels and motels all the time."

That caution extends to commercial loans.

"When collateral is available for even commercial-type of loans, we like to have it backed by real estate," Mr. Nakayama said.

As a result, loan losses are low, compared with American-owned banks. For example, Sumitomo's net loan loss as a percent of beginning loans was 0.5% in 1986, according to Mr. Findley, the banking consultant.

"There is nothing magic about it," said Sumitomo's Mr. Nakayama. "You stick to the basics of good credit control, and you know your customers real well."

Mr. Weil, the former Mitsui executive, concluded: "Japanese banks will continue to increase in market share in California, whether it be by acquisition or internal growth. They will do it at the expense of less efficient operators."

Next: Sumitomo Bank of California focuses on improving profit margins and maintaining its Japanese heritage.

California Agencies & Branches Of Japanese Banks

Assets (In thousands of dollars)

	12/31/86	12/31/85
Bank of Tokyo Ltd.	$1,419,680	$1,140,058
Bank of Yokohama Ltd.	1,079,241	420,390
Dai-Ichi Kangyo Bank Ltd.	3,184,629	2,579,096
Daiwa Bank Ltd.	1,334,010	915,946
Fuji Bank Ltd.	4,582,524	3,345,924
Hokkaido Takushoku Bank Ltd.	489,134	451,352
Industrial Bank of Japan Ltd.	3,565,486	1,956,365
Kyowa Bank Ltd.	1,409,499	954,946
Long-Term Credit Bank of Japan Ltd.	1,285,411	1,207,076
Mitsubishi Bank Ltd.	3,709,566	2,756,500
Mitsubishi Trust and Banking Corp.	2,743,730	2,824,019
Mitsui Bank Ltd.	1,959,116	968,350
Mitsui Trust and Banking Co. Ltd.	2,031,816	1,855,953
Nippon Credit Bank Ltd.	783,484	716,283
Saitama Bank Ltd.	1,051,097	960,093
Sanwa Bank Ltd.	1,875,767	1,942,649
Shizuoka Bank Ltd.	1,069,340	357,214
Sumitomo Bank Ltd.	1,989,440	1,476,903
Sumitomo Trust & Banking Co. Ltd.	1,379,463	1,116,250
Taiyo Kobe Bank Ltd.	1,404,982	1,006,886
Tokai Bank Ltd.	2,590,207	1,522,367
Toyo Trust and Banking Co. Ltd.	1,187,189	1,217,981
Yasuda Trust and Banking Co. Ltd.	2,119,030	1,708,045
All Agencies/branches	**44,243,841**	**33,400,646**
All California bank subsidiaries	**22,884,917**	**17,590,451**
TOTAL	**$67,128,758**	**$50,991,097**

SOURCE: California Banking Department